

Remuneration report 2020

Introduction

This report describes how the guidelines for executive remuneration of Ratos AB, adopted by the 2020 Annual General Meeting, were implemented in 2020. The report also provides information on remuneration to the CEO and a summary of the company's outstanding share-related and share price-related incentive programmes. The report has been prepared in accordance with the Swedish Companies Act and the *Rules on Remuneration of the Board and Executive Management and on Incentive Programmes* (the "Remuneration Rules") issued by the Swedish Corporate Governance Board.

Further information on executive remuneration is available in Note 7 Employees, personnel costs and remuneration to senior executives and boards on pages 77-81 of the 2020 Annual Report. Information on the work of the compensation committee in 2020 is set out in the Corporate Governance Report available on pages 45-51 of the 2020 Annual Report.

Remuneration of the Board of Directors is not covered by this report. Such remuneration is resolved annually by the Annual General Meeting and disclosed in Note 7 on page 79 of the 2020 Annual Report.

Key developments 2020

The CEO summarises the company's overall performance in his statement on pages 6-8 of the 2020 Annual Report.

The company's remuneration guidelines: scope, purpose and deviations

A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company can recruit and retain qualified personnel. To this end, the company must offer competitive remuneration. The company's remuneration guidelines enable the company to offer executives competitive total remuneration. Under the remuneration guidelines, executive remuneration shall be on market terms and may consist of the following components: fixed cash salary, variable cash remuneration, pension benefits and other benefits. The variable cash remuneration shall be linked to predetermined and measurable financial or non-financial criteria. They may be individualised, quantitative or qualitative objectives. The criteria shall be designed to contribute to the company's business strategy and long-term interests, including its sustainability, by for example being clearly linked to the business strategy or promote the executive's long-term development.

The guidelines are found on pages 42-43 of the 2020 Annual Report. During 2020, the company complied with the applicable remuneration guidelines adopted by the general meeting. The company's Board has decided, based on a proposal prepared by the compensation committee, to adjust the payment date for the variable cash remuneration for 2020, meaning that 100% of the variable cash remuneration for 2020 may be paid to participants already in 2021, provided that the entire portion of the variable cash remuneration received that exceeds 50% is invested by the participant in instruments in Ratos's long-term incentive programme 2021. The Board is of the opinion that the need to stimulate participation in Ratos's long-term incentive programme, in light of the current coronavirus pandemic, through a change to the payment date constitutes the type of special circumstances required to make such a decision and that the deviation is necessary to safeguard the company's long-term interests (that is, to retain the company's key personnel). No other deviations from the guidelines have taken place. No deviations have been made from the decision-making process that, according to the guidelines, is to be applied when determining remuneration. The auditor's report regarding the company's compliance with the guidelines is available on www.ratos.com/en/governance. No remuneration has been reclaimed. In addition to remuneration covered by the remuneration guidelines, the Annual General Meetings of the company have resolved to implement long-term share-related incentive programmes.

Table I – Total CEO remuneration in 2020 (kSEK)

Name of director (position)	1	2			3	4	5	6
	Fixed remuneration	Variable remuneration			Extraordinary items	Pension expense	Total remuneration	Proportion of fixed and variable remuneration % ⁴⁾
Base salary ¹⁾	Other benefits ²⁾	One-year variable ³⁾	Multi-year variable					
Jonas Wiström (CEO)	7,994	0,112	7,920	-	-	2,376	18,402	57/43

¹⁾ Including holiday pay of 74 KSEK

²⁾ Mainly company car of 101 KSEK, the remaining part refers to health care.

³⁾ Variable remuneration refers to bonuses attributable to 2020. Is paid out in an amount of 50% in the year 2021 and 50% in the year 2022. However, 100% of the variable cash remuneration for 2020 may be paid to CEO already in 2021, provided that the entire portion of the variable cash remuneration received that exceeds 50% is invested by CEO in instruments in Ratos's long-term incentive programme 2021 (for further information, see section "The company's remuneration guidelines: scope, purpose and deviations").

⁴⁾ Pension expense (column 4), which in its entirety relates to Base salary and is premium defined, has been counted entirely as fixed remuneration

Share-based remuneration

Outstanding share-related and share price-related incentive programmes

Convertible and warrant programmes

The 2018, 2019 and 2020 Annual General Meetings voted to introduce three long-term incentive programmes for the CEO and other key personnel in Ratos (LTI2018, LTI2019 and LTI2020) consisting of convertibles and warrants (referred to below as the "Instruments"), where participants in the programme were free to decide how large a share of the Instruments offered should comprise convertibles and/or warrants.

The aforementioned convertible programmes extend for no more than four years and can be exercised after approximately three years at the earliest, provided the performance condition for the programme, namely Ratos's share price performance, is fulfilled.

The aforementioned warrant programmes extend for no more than five years and can be exercised after approximately three and a half years at the earliest, provided the performance condition for the programme, namely the total return on Ratos's Class B share, is fulfilled.

The participants have received warrants free of charge, which means they have received a benefit corresponding to the market value of the warrants on the allotment date, calculated according to the Black & Scholes model. One prerequisite for the allotment of warrants is that the participant has signed an agreement regarding the repurchase, etc. with the company whereby the company or purchaser designated by the company has the right to repurchase warrants if the participant's employment is terminated.

Ratos has issued and allotted a total of 3,406,839 Instruments to the participants which are still outstanding, distributed as follows: 2,403,328 convertibles and 1,003,511 warrants. The CEO has been allotted a total of 200,000 warrants and 400,000 convertibles. Ratos's convertible debentures amounted to a nominal amount of just over SEK 54m as of 31 December 2020. The increase in the company's share capital may, in the event of full exercise of the Instruments, amount to no more than SEK 10,731,542.85 (assuming the current quota value and that no recalculation takes place in accordance with the terms and conditions), which, as of 31 December 2020, corresponded to dilution of approximately 1.07% of the shares in Ratos, based on the number of shares outstanding.

Call option programmes

The 2016 and 2017 Annual General Meetings voted to introduce two call option programmes for the CEO and other key personnel in Ratos (KO2016 and KO2017).

The call option programmes extend for no more than five years and can be exercised after approximately three and a half years at the earliest, provided the performance condition for the

programme, namely the total return on Ratos's Class B share, is fulfilled.

The participants have paid a market premium for the call options in the programmes. The acquisition of call options will be subsidised by the purchaser receiving an extra cash remuneration corresponding to a maximum of 50% of the option premium after deduction for 55% standard tax, whereby the remuneration will be divided into equal components over five years, normally provided the person concerned is still working for the Ratos Group and still holds options acquired from Ratos or shares acquired through the options.

Ratos has allotted a total of 695,500 call options which are still outstanding. The CEO has not been allotted any call options. Call options are issued on treasury shares. The increase in the company's share capital, in the form of an increase in the proportion of shares outstanding, may, in the event of full exercise of the Instruments, amount to no more than SEK 2,190,825 (assuming the current quota value and that no recalculation takes place in accordance with the terms and conditions), which, as of 31 December 2020, corresponded to dilution of approximately 0.22% of the shares in Ratos as of the date on which the Instruments were issued, based on the number of shares outstanding.

It has been noted that the call option programme resolved on by the 2015 Annual General Meeting for the CEO and other key personnel in Ratos (KO2015) expired during the year without the performance condition for the programme, namely the total return on Ratos's Class B share, being fulfilled. The main condition for KO2015 essentially corresponds with the conditions for KO2016 and KO2017.

Synthetic options

The Annual General Meetings from 2010 to 2017 resolved on cash-settlement option programmes related to Ratos's outstanding investments in portfolio companies. These programmes are carried out through the issue of synthetic options that have been transferred at market price. These programme gives key personnel in Ratos an opportunity to share in the portfolio companies' growth in value. These options gain value only when Ratos's average annual return exceeds a certain percentage (which varies between 8 and 15%). The purchase of options is subsidised by the option purchaser receiving extra cash remuneration corresponding to a maximum of 50% of the option premium, whereby the remuneration will be divided into equal components over four years, normally provided the person concerned is still working for the Ratos Group and still holds options acquired from Ratos. The CEO has not been allotted any synthetic options.

It has been noted that the cash-settlement option programme related to Ratos's investment in HL Display expired on 31 October 2020, which meant that the holders were entitled to exercise their options. The exercise of the options did not result in any payments from Ratos to the option holders.

Table 2 – Warrant programmes (CEO)

Name of the holder (position)	The main conditions for the warrant programmes							Information regarding the reported financial year ^a					
	1 Name of programme	2 Performance period	3 Allotment date	4 Vesting date	5 End of retention period	6 Exercise period	7 Exercise price (subscription price) (SEK)	Opening	During the year		Closing balance		13 Warrants subject to retention period
								8 Warrants held at beginning of year	9 Warrants allotted	10 Warrants vested	11 Warrants subject to performance condition	12 Warrants allotted and unvested	
	LT12018	2018-05	28 May 2018	8 Dec 2021	N/A	8 Dec 2021	35.08	100,000	0	0	100,000	100,000	N/A
Jonas Wiström (CEO)	LT12019	2019-06 2022-12	3 Jun 2019	14 Dec 2022	N/A	14 Dec 2022 14 Jun 2024	32.61	100,000	0	0	100,000	100,000	N/A
Total								200,000	0	0	200,000	200,000	N/A

^a In 2020, there were no changes to the LT12018 or LT12019 warrant programmes, in which the CEO holds 100,000 warrants in each programme. In 2020, the CEO was not allotted any warrants under LT12020, but rather only convertibles (for more information, refer to Table 3 below)

Table 3 – Convertible programmes (CEO)

Name of the holder (position)	The main conditions for the convertible programmes							Information regarding the reported financial year*					
	1 Name of programme	2 Performance period	3 Allotment date	4 Vesting date	5 End of retention period	6 Exercise period	7 Exercise price (subscription price) (SEK)	Opening		During the year		Closing balance	
								8 Convertibles held at beginning of year	9 Convertibles allotted	10 Convertibles vested	11 Convertibles subject to performance condition	12 Convertibles allotted and unvested	13 Convertibles subject to retention period
Jonas Wiström (CEO)	LTI2018	2018-05	28 May 2018	8 Jun 2021	N/A	8 Jun 2021	26.64	100,000	0	0	100,000	100,000	N/A
		2021-06				8 Jun 2022							
	LTI2019	2019-06	3 Jun 2019	7 Jun 2022	N/A	7 Jun 2022	27.25	150,000	0	0	150,000	150,000	N/A
		2022-06				7 Jun 2023							
	LTI2020	2020-05	22 May 2020	30 Apr 2023	N/A	30 Apr 2023	22.65	150,000	150,000**	0	150,000	150,000	N/A
		2023-04				30 Apr 2024							
Total								400,000	150,000	0	400,000	400,000	N/A

* In 2020, there were no changes to the LTI2018 or LTI2019 convertible programmes, in which the CEO holds 100,000 and 150,000 convertibles, respectively. In 2020, the CEO was allotted 150,000 convertibles under LTI2020.

** The total market value of the underlying shares on the allotment date was approximately SEK 3,405,000. The total exercise price (conversion rate) is SEK 3,397,000.

Application of performance criteria

The performance criteria for the CEO's variable remuneration have been selected to deliver on the company's strategy and to encourage behaviour that is in the long-term interests of the company. In the selection of performance criteria, the strategic objectives and short-term and long-term business priorities for 2020 have been taken into account.

Table 4(a) – Performance of the CEO in the reported financial year: variable cash remuneration

Name of director (position)	1 Description of the criteria related to the remuneration component	2 Relative weighting of the performance criteria	3 a) Measured performance and b) actual award / remuneration outcome
Jonas Wiström (CEO)	EBITA growth in Ratos's company portfolio 2020	75%	a) 100% b) 5,940 KSEK
	Growth in earnings before tax (EBT) for the Ratos group 2020	25%	a) 100% b) 1,980 KSEK

Table 4(b) – Performance of the CEO in the reported financial year: share-related remuneration

Since the performance period is still ongoing for all incentive programmes in which the CEO holds instruments, there is nothing to report in this section.

Comparative information on changes in remuneration and company performance

Table 5 – Changes in remuneration and company performance over the last five reported financial years (RFY) (kSEK)

Since this is Ratos's first remuneration report, the information in the table below pertains only to the 2020 financial year.

	RFY 2020
CEO remuneration	18,402
Group operating profit	1,928,692
Average remuneration on a full time equivalent basis of employees ¹⁾ of the parent company	1,837

¹⁾ Excluding members of the group executive management. Though, for major part of year 2020, remuneration for one former member of the group executive management is included in the average remuneration above. The remunerations consists of base salary, other benefits, variable remuneration and pension expense, which is equal as the remuneration to CEO (Table 1). The average remuneration has been calculated by dividing the total remuneration with the average number of full time employee in the parent company, excluding the group executive management.